ETHICS IN GOVERNMENT

Ethics in Economics

By LEONARD SILK*

Ethics increasingly has made its way onto the agenda of the American economics profession. This has happened, I believe, for two reasons, one exogenous and the other endogenous.

The exogenous cause was the Nixon Administration, and the more conspicuous-than-usual bowing of the knee by economists to the sovereign. That was bad enough; it certainly had its effect on the quality of analysis and forecasting, and the mode of public discourse among economists, which lowered the standing of the economics profession in the eyes of the wider public. The episode was made all the more unpleasant by the personal-cum-political hostility displayed by some Nixonian economists toward their critical or even only disagreeing colleagues in the profession. One eminent economist, Paul A. Samuelson, even made it onto the enemies list. Samuelson believes that he made the list by his achievements as a journalist rather than as an economist. And it must be added in fairness that the list was the work not of Administration economists but of political operatives, the same operatives who discussed plans to bomb the Brookings Institution. Nevertheless, the mood of the period was poisonous, and I regret to say that some in-house, that is White House, economists were infected by it.

I am delighted to tell you that, in my opinion, that mood has been dispelled and that, across the frontier between the conservative economists who serve the Ford Administration and the liberal economists who do not, peace and a considerable measure of mutual respect reign. I would specifically credit Alan Greenspan, Chairman of the President's Council of Economic Advisers, with a well-thought-out and well-executed plan to restore the credibility of the economists in government. If the economists' standing is still lower than it was during the glory days of the Kennedy and early Johnson years, or year, that is more due to the persistent weaknesses of the economy and the inability of economists to come up with convincing solutions, convincing even to themselves, rather than to a belief that they are dissimulating or faking the evidence. At the personal level, relations between highly placed economists within the Administration and outside it have markedly improved. I hope that I am not overstating the case. Insiders will know better than outsiders whether and how much leaning on professional staff for predetermined conclusions has still been going on, and whether there has been any significant massaging of the data. On the data, I firmly believe there has been little or none; and this is doubly commendable because the data, especially on unemployment, have been extremely inconvenient for an incumbent President in this election year. Given uncertainties about the seasonal adjustment factors, this demonstrated restraint and professional rectitude on the part of the President's men—that is, his economists—has been almost above and beyond the call of duty. I hope it continues, and into the next Administration.

I asserted earlier that there was also an endogenous reason, endogenous within the discipline of economics as James Tobin uses the term, why ethics has moved up on the profession's agenda. That reason is the increasing awareness among economists of the necessity of paying more attention to the *goals* of eco-

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nomic policy, and these are value-laden, rich in ethical content and deep in ethical confusion. A growing number of economists now believe that the economist himself should concentrate more on the entire process by which goals are set and on helping to resolve conflicts among different goals, such as freedom, efficiency, equity, security, stability and growth. In the past economists have customarily taken such goals, in their more specific forms, as ''given''—that is, given by other policy makers or by the society at large—and have maintained that goals are subjective; hence, that economists are no better than anyone else at setting them. All the honest economist, as economist, could do would be to display alternate means of achieving goals, and point out inconsistencies, when such existed. But this modest or self-limiting posture has led to a very unhelpful vagueness in an area that is crucial to the entire realm of economic and social policy. For instance, the new report on economic education, being prepared for the Joint Council on Economic Education under the chairmanship of W. Lee Hansen, says of the goal called ''equity,'' an extremely important ethical concept, ''This is an elusive concept. There is no agreement on what is equitable; people differ in their conception of what represents fairness or equity. In evaluating economic performance, the concept is essential in reminding us to investigate who or what kinds of people are made better or worse off as a result of a change in prices or the implementation of a new government program.''

But because the goal of equity is difficult to define, does that imply that some other goal, such as efficiency, should supervene? My own answer—and I should think most of yours—would be no. Yet, in the absence of a better means of dealing with the question of equity, the goal of efficiency may in fact supervene in the work of the economists—and give rise to a sometimes bitter or cynical feeling that others, especially politicians, are ''wrong'' in rejecting their conclusions.

In the real world of politics, it is the clash over values and goals that is the essence of the policy problem. All economists know this, and it variously informs the work and thought of our most important economists, such as Samuelson, Milton Friedman, John Kenneth Galbraith, Wassily Leontief, and Kenneth Boulding, whose lives and ethical views I have recently sought to explore. I found the exercise, when done in terms of specifics, not generalities, extremely helpful as a means of gaining perspective on the divisions and confusions within contemporary economics.

Within economics, as within the whole of modern Western society, we continue to reenact the philosophical history and confrontations of ancient Greece. We have our Cynics, descendants of Diogenes, believers in a philosophy of retreat; they hold that life of man in society is bad and one can find satisfaction only in unresisting resignation to the evils of the world. We have our Skeptics, heirs of Pyrrho, who assert that there could never be any rational ground for preferring one course of action over another, and that the task of man is simply to conform to the customs of the country where he lives; a view also held by many businessmen, who now operate in many countries. We have our Epicureans, children of Epicurus, who hold to a philosophy of preferring pleasure to pain; the felicific calculus is indeed at the heart of conventional economics. Yet it is worth reminding ourselves that Epicurus thought true pleasure was to be found in moderation. ''The greatest good of all,'' he wrote, ''is prudence; it is a more precious thing than philosophy.'' Epicurus wanted man to avoid fear and to abstain from public life. But that is advice very few economists are willing or able to accept, once the opportunity of a public life and power is thrust upon them. And many, alas, even connive at achieving the opportunity, as we say, to serve.

But that is not all; we have our Stoics, our Platonists, our Aristotelians, and, coming down to later epochs, our Christians and our Marxists. I offer all of this rich ethical material to you as a gold mine, perhaps a uranium mine, for further exploration.

However, I must move on, since my chairman has also asked me to comment on ethics in business as compared to ethics in government. This, too, is a subject that has been close to my heart and my typewriter in recent years.

Public confidence in the leadership and integrity of business has been gravely weakened in recent years by revelations of the efforts of some corporations illegally or unethically to influence government decisions and policies, both at home and abroad. The cases have been too numerous and important for anyone to dismiss as a fabrication or distortion by the "media." Watergate, the Lockheed-Tanaka connection in Japan, and the Lockheed-Prince Bernhard connection in the Netherlands (as well as the complicating Northrop-Bernhard connection), which have shaken the stability of governments, have been only the most conspicuous and sensational of these business-government scandals. And there are doubtless other revelations to come.

Why have so many businesses entered into corrupt relations with highly placed government officials? The most obvious answer, and one that many members of the press and public may think is sufficient to explain the whole story, is that certain businessmen (with the cooperation, encouragement or even extortionate pressure of government and political leaders—it does take two to tango) have put immediate corporate sales and profits and their own personal interests above all other considerations, including respect for the law. On a straight cost-benefit analysis, such corporate officials decided that "corruption pays."

The thesis that corruption pays certainly does not apply to all business situations or, I would maintain, the vast majority of them. It was Adam Smith—the moral philosopher whom we honor this year for the 200th anniversary of *The Wealth of Nations*, together with our nation's bicentennial—who pointed out that among those who trade often with each other honesty is the best policy. That is still normally true for relations among investors and their brokers, purchasers and suppliers, bankers and their customers, and many others who constantly do business together: honesty and integrity are consistent with long-run stability of relationships and long-run profit for firms. Honesty is clearly a "public good" for the participants in certain markets, since all benefit by preserving a code of fair dealing and free competition. Capitalism was believed to rest on a moral foundation.

Then what has gone wrong—and why has corruption become so serious a problem in the United States and elsewhere? Among the possible explanations are these:

1) There has been decay of traditional morality in the society at large. A generation ago, in his *A Preface to Morals*, Walter Lippmann said that virtue was not the creation or monopoly of the tender-minded and sentimental but derived originally from a profound realization of the character of human life; and that widespread social and personal immorality was due directly to the loss of genuine belief in the premises of popular religion. This loss of belief is now further advanced.

2) The growing anonymity of life in mass society; the lack of close personal relations between corporate leaders and other members of the community, representing different interests and different points of view; the huge size of firms, their bureaucratic structure, the loss of a sense of family tradition and honor as firms increasingly become "public" corporations, the short-run perspective imposed not only by immediate market pressures but by stockmarket considerations; the diminishing importance of a reputation for "character" in the making of money—all such factors add up to a diminution of the force of social (as opposed to governmental) controls.

3) Corruption has been growing, *pari passu*, with the growing weight of government in the market, and the importance to businessmen of eliciting government actions or policies favorable to particular corporations. This is particularly true in the defense area, but it goes far beyond military procurement in an age in which contracts or regulation or subsidy or licenses or control by government affects virtually every

business in the country in one way or another—usually in many different ways.

This may well have been the fundamental explanation for Watergate—that is, for the aspect of Watergate represented by corporations' illegal contributions to former President Nixon. As one corporate executive put it at one of the Conference Board conferences that a political scientist, David Vogel, and I covered and have described and analyzed in a forthcoming book, *Ethics and Profits*, "When it came down to Nixon or McGovern, the outcome really meant a lot. This was the fundamental reason for illegal political actions."

Yet, remarkably enough, at least from the perspective of most critics of business, businessmen do not see themselves in control of the political process. Quite to the contrary, just as much of the public sees powerful business corporations dominating the rest of the society and the governmental process, businessmen see just the reverse—they believe they themselves are dominated by other forces in the society—populist politicians and their supporters, government bureaucrats, labor unions, farm groups, citizen groups, the press and the electronic media.

A great many reporters, scholars and critics of business have assumed and asserted for a long time that business and government enjoy a very close rapport; but our observation has been that, whatever that rapport may or may not have been in the past, and it has doubtless had its ups and downs, business today is extremely suspicious of and hostile toward government. And, as business distrusts government, government distrusts business. In each case, this distrust is based largely on misconceptions regarding the roles and performance of the other party. This is a bad situation because many of the problems that our society will have to face require increased cooperation between government and business; this will be essential if the nation is to solve persistent problems of economic growth and stability, to end high unemployment and inflation, to reduce the social and international tensions that result from economic inequality and poverty, to check and reverse urban decay, to avert threats to the natural and social environment of an expanding industrial system, to accomplish the rebuilding of a healthy and decent social order in which business institutions, as well as those of government, can regain public respect.

One of the most striking findings of our study, we think, was the distrust that business feels not only toward government but toward *the democratic process itself*. This is a latent cause of much that has gone wrong in business's public standing.

Strikingly, businessmen today seem remarkably pessimistic about the future of the capitalist system. The only group that is even more convinced that we are witnessing the twilight of capitalism are the Marxists. The loss of faith by businessmen in the compatibility of capitalism and democracy could be a self-fulfilling prophesy. There needs to be an end to the kind of cynicism that leads to self-interested attempts to manipulate politicians and the public.

There is obviously no simple formula for how business can regain public respect and understanding, since what is involved are all the things that individual executives and corporations do in their relations with government and the public, both at home and abroad, as well as their internal conduct of their business affairs. What corporate executives need to accept is that they have *two* major roles to play: One directing and managing the affairs of their companies, the other in recognizing and responding intelligently to the expectations and needs of the broad society. If they neglect the second role, or despise it, they will get themselves and their organizations into deep trouble and deeper public disrepute, as some have already done. This is the lesson to be learned from the seemingly hard-headed, hard-nosed, narrowly profit-oriented behavior of some corporate executives in recent years; they seriously hurt themselves, their companies, business in general and their country as well as other friendly nations by neglecting or misconceiving their public role.

The resulting extremely adverse public reaction is moving some leaders of business thinking toward acceptance of a new concept of the role of business in society—a concept that is far broader than the earlier ideology which held that the sole aim of the corporation is to produce a profit. Profit-making is obviously crucial to business survival and growth but it can no longer be celebrated as a sufficient objective by businessmen—not if they expect to regain public confidence and avoid highly constraining public regulation, control or even expropriation.

We have called the new creed that is emerging "the consent doctrine"—the recognition of the public's participation in shaping business policy and business actions. Businessmen must recognize that they play their role, exercise their considerable power, subject to the consent of the public. The ability of corporate executives to exercise their considerable powers effectively depends on their obtaining and holding this public consent.

This consent doctrine does not in my view imply a merely accommodating or passive role for business. Rather, business should seek to contribute actively, by its own performance, its policy advice, and its cooperation with other groups, to the solution of the grave problems that trouble society today and will affect it tomorrow. Businessmen must learn to look ahead and help government do what the individual corporation cannot do: tackle the broad, long-range problems that lie beyond the reach and grasp of the individual firm. In contributing to the broad social welfare, business will regain respect for itself, and for other participants in the democratic process.

Can business actually do it? Radical critics of capitalism insist that it cannot—that business institutions are inherently so narrowly self-interested that, in conducting the normal quest for profit, they must undermine or corrupt the democratic process. It is up to business leaders to prove that such a thesis is wrong—if they hope to preserve their freedom.

It may in fact be true that, in many instances and in the short run, corruption pays; but sooner or later it will cost heavily. Over time, it will lead to the destruction not only of individual firms but of capitalism itself as government takes control. The survival of private business institutions and the values of independence and liberty that businessmen cherish thus depends not just on the ability of business to earn sufficient profits, which it does, but also on a broader and deeper conception by business of the public good. To command significant public support, a conservative ideology must provide a better defense of limited government than that of preserving the economic freedom, privileges, prerogatives, wealth and power of corporations and their managers or owners.

At any rate, that is my own prediction and prescription, colored beyond doubt by my own ethical presuppositions.